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5 UNITED STATES DISTRICT COURT  
6 WESTERN DISTRICT OF WASHINGTON  
7 AT SEATTLE

8 DATANET LLC,

9 Plaintiff,

10 v.

11 MICROSOFT CORPORATION,

12 Defendant.

CASE NO. 2:22-cv-1545

ORDER ON DEFENDANT'S MOTION  
TO STAY PENDING *INTER PARTES*  
REVIEW AND MOTIONS FOR LEAVE  
TO AMEND INVALIDITY  
CONTENTIONS AND AFFIRMATIVE  
DEFENSES AND COUNTERCLAIMS

13  
14 **1. INTRODUCTION**

15 Before the Court are three separate but ultimately related motions:  
16 Defendant Microsoft Corporation moves to stay the case pending *inter partes* review  
17 (Dkt. No. 45), and for leave to amend its invalidity contentions (Dkt. No. 47) and  
18 affirmative defenses and counterclaims (Dkt. No. 56). Having reviewed the papers  
19 submitted in support of and opposition to the motions, as well as the relevant  
20 record, the Court rules as stated below.

21 **2. BACKGROUND**

22 Datanet alleges Microsoft's hosting/backup software, Microsoft OneDrive,  
23 infringes on its three patents: Patent Numbers 8,473,478 ("478 Patent"), 9,218,348

1 (“348 Patent”), and 10,585,850 (“850 Patent”) (collectively, “Asserted Patents”).  
2 Dkt. No. 1 at 1-2. Specifically, Datanet alleges infringement of claims 1, 2, 3, 5, 6, 8,  
3 9, 10, and 11 of Patent ’478; claims 1, 3, 4, 5, 6, 8, 10-20, 23-31 of Patent ’348; and  
4 claims 1-21 of Patent ’850. *Id.* at 8, 16, 23.

5 Each of the Asserted Patents is titled “Automatic Real-Time File  
6 Management Method and Apparatus.” *Id.* at 31, 44, 59. At a high level, the Asserted  
7 Patents describe “systems and techniques for archiving and restoring files.” *Id.* at 3.  
8 Datanet acquired the Asserted Patents from a software company called IPCI in  
9 2018, but neither IPCI nor Datanet marketed or sold a finished product that  
10 practiced the Asserted Patents. *Id.* at 2-3.

11 On October 31, 2023, Microsoft petitioned the Patent Trial and Appeal Board  
12 (PTAB) for *inter partes* review of claims 1 through 21 of Patent ’850 (Dkt. No. 45-1  
13 at 12), claims 1 through 6 and 8 through 11 of Patent ’478, (Dkt. No. 45-2 at 11),  
14 and claims 1 through 6, 8 through 20, and 23 through 31 of Patent ’348 (Dkt. No.  
15 45-3 at 13). Across the three patents, Microsoft seeks to invalidate 53 of the 54  
16 claims Datanet alleges Microsoft infringed upon.

17 In the meantime, the parties have continued to litigate this case. Microsoft  
18 seeks leave to amend its invalidity contentions and its affirmative defenses and  
19 counterclaims for the same reason; namely: On August 28, 2023, seven months after  
20 Microsoft filed its answer and one month after it served its invalidity contentions,  
21 the Federal Circuit issued its opinion in *In re: Cellect, LLC*, 81 F.4th 1216 (Fed. Cir.  
22 2023). Microsoft argues that the Federal Circuit, for the first time, decided that a  
23 later-filed, later-issued patent that expires before an earlier-filed, earlier-issued

1 patent due to a term extension under Section 154(b) (Patent Term Adjustment or  
2 “PTA”), can be used as an obviousness-double patenting (ODP) reference against the  
3 later-expiring patent. Dkt. No. 47 at 7; *see also In re: Collect, LLC*, 81 F.4th at 1227  
4 (“For the first time, here, we address how another statutorily authorized extension,  
5 PTA, interacts with ODP.”). Because *In re: Collect* held that “that ODP for a patent  
6 that has received PTA, regardless whether or not a terminal disclaimer is required  
7 or has been filed, must be based on the expiration date of the patent after PTA has  
8 been added[.]” Microsoft claims it has a new defense—the claims of Patent ’478 are  
9 invalid under the ODP doctrine because “it is related to and has overlapping subject  
10 matter with the expired” Patent ’348. Dkt. No. 57-1 at 45.

11 The technology tutorial is scheduled for February 6, 2024, and a *Markman*  
12 hearing is set to follow on March 12, 2024. Dkt. No. 63.

### 13 3. DISCUSSION

#### 14 3.1 Legal Standards.

15 District courts have inherent power to manage their dockets and discretion to  
16 stay proceedings pending the conclusion of *inter partes* review. *Ethicon, Inc. v.*  
17 *Quigg*, 849 F.2d 1422, 1426-27 (Fed. Cir. 1988). “To determine whether to grant  
18 such a stay, the court considers (1) whether a stay will simplify the court  
19 proceedings; (2) the stage of the case; and (3) whether a stay will unduly prejudice  
20 or present a clear tactical disadvantage to the non-moving party.” *WAG Acquisition,*  
21 *LLC v. Amazon.com, Inc.*, No. C22-1424JLR, 2023 WL 1991888, at \*1 (W.D. Wash.  
22  
23

1 Feb. 14, 2023) (citing *Pac. Bioscience Lab's, Inc. v. Pretika Corp.*, 760 F. Supp. 2d  
2 1061, 1063 (W.D. Wash. 2011)).

3 A motion to amend invalidity claims *and* the pleadings implicates both  
4 Federal Rule of Civil Procedure 15 and Local Patent Rule 124. There is a tension  
5 between the rules, however, as Rule 15 counsels that leave to amend the pleadings  
6 should be freely given when justice so requires, while Local Patent Rule 124 is  
7 “decidedly conservative,” allowing amendment of invalidity contentions only upon a  
8 showing of good cause and leave of court. *REC Software USA v. Bamboo Solutions*  
9 *Corp.*, No. C11-0554JLR, 2012 WL 3527891, at \*2 (W.D. Wash. Aug. 15, 2012)  
10 (quoting *LG Elecs. Inc. v. Q-Lity Computer Inc.*, 211 F.R.D. 360, 367 (N.D. Cal.  
11 2002)).

12 The Honorable James L. Robart analyzed the differences between the two  
13 standards in *Wizards of the Coast LLC v. Cryptozoic Ent. LLC*, 309 F.R.D. 645, 649-  
14 50 (W.D. Wash. 2015). This Court is persuaded by his analysis and concludes  
15 similarly that Rule 15 governs when the two standards converge. Thus, the Court  
16 will analyze the motions under the traditional Rule 15 factors: “(1) bad faith, (2)  
17 undue delay, (3) prejudice to the opposing party, (4) futility of amendment,’ and (5)  
18 whether the pleadings have previously been amended.” *Id.* (quoting *Allen v. City of*  
19 *Beverly Hills*, 911 F.2d 367, 373 (9th Cir.1990)). Courts need not consider every  
20 factor, but the third factor—prejudice to the opposing party—is the “touchstone of  
21 the inquiry under rule 15(a).” *Id.* (quoting *Eminence Cap., LLC v. Aspeon, Inc.*, 316  
22 F.3d 1048, 1052 (9th Cir.2003)).

1 **3.2 Because the PTAB has not decided whether it will institute *inter***  
2 ***partes* review, it's not clear that a stay will simplify the issues in**  
3 **question.**

4 At this point, Microsoft's IPR petition remains pending before the PTAB.  
5 Once a party petitions for IPR, the PTAB has six months to decide whether it will  
6 grant the requested review. *See* 35 U.S.C. § 313; 35 U.S.C. § 314; 37 C.F.R. § 42.107.  
7 Because Microsoft filed its IPR petition on October 31, 2023, the PTAB will likely  
8 decide whether it will institute review by the end of April 2024.

9 The utility of an *inter partes* review is obvious: it has the potential to greatly  
10 streamline or obviate the case, and regardless of the outcome, the PTAB's analysis  
11 is beneficial to claim construction. *See WAG Acquisition, LLC*, 2023 WL 1991888, at  
12 \*2 (finding, without a stay, "there is a substantial risk that both the court and the  
13 parties will needlessly expend valuable resources in determining the validity of  
14 patent claims that are ultimately cancelled or amended by the USPTO.") (internal  
15 quotations omitted); *Pac. Bioscience Lab's, Inc.*, 760 F. Supp. 2d at 1065 ("Even if  
16 some or all of the claims are confirmed, the court would still have the benefit of the  
17 USPTO's analysis of the disputed claim terms in ruling on claim construction.");  
18 *Neodron, Ltd. V. Lenovo Grp., Ltd.*, No. 19-CV-05644-SI, 2020 WL 5074308, at \*2  
19 (N.D. Cal. Aug. 27, 2020) ("[D]efendants would be bound by the estoppel provisions  
20 for *inter partes* review and thus could not raise before this Court any arguments it  
21 raised, or reasonably could have raised, at the PTO in its petitions.").

22 But courts in this District are split when it comes to staying a case before the  
23 PTAB decides whether it will institute *inter partes* review. *Compare Nat'l Prod. Inc.*  
*v. Innovative Intelligent Prod., LLC*, No. 20-cv-428, 2021 WL 2636101, at \*2 (W.D.

1 Wash. June 25, 2021) (denying motion to stay, finding “[t]he Court cannot conclude  
2 that a stay will simplify the issues before it because the PTAB has not yet decided  
3 whether it will even institute *inter partes* review on any grounds raised by [the]  
4 [d]efendant in any of its petitions.”) *with WAG Acquisition, LLC*, 2023 WL 1991888,  
5 at \*2 (granting motion to stay, concluding “[b]ased on the 2022 fiscal year statistics  
6 regarding the rate at which the PTAB institutes IPR proceedings and invalidates  
7 claims, the court finds that it is likely that the PTAB will institute IPR proceedings.  
8 . . .”).

9 Courts granting a motion to stay before the PTAB has instituted review tend  
10 to focus on U.S. Patent and Trademark Office statistics showing the PTAB is likely  
11 to institute review, and for the IPRs that proceed to a final written decision, likely  
12 to determine that the claims at issue are unpatentable. *See* Dkt. No. 51 at 6 (citing  
13 *SRC Labs, LLC v. Microsoft Corp.*, No. C18-0321JLR, 2018 WL 6065635, at \*3  
14 (W.D. Wash. Nov. 20, 2018); *WAG Acquisition, LLC*, 2023 WL 1991888, at \*3. While  
15 courts in the other camp hold that it is simply premature to stay a case before the  
16 PTAB has instituted review. *See ThroughPuter, Inc. v. Microsoft Corp.*, No. 2:22-CV-  
17 344-BJR, 2022 WL 2498754, at \*1 (W.D. Wash. June 1, 2022) (“Courts routinely  
18 hold that motions to stay filed before the PTAB has instituted IPR are premature,  
19 and that granting a stay at that juncture will not simplify the issues.”).

20 This Court will not attempt to reconcile the divergent views and will focus  
21 instead on the circumstances of this case: at this stage in the proceedings, the  
22 parties have engaged in discovery and filed claim construction briefs, but the  
23 *Markman* hearing has yet to occur and trial is still nine months away; and whether

the PTAB will accept review should be known within the next two months. Thus, to conserve judicial and party resources pending the PTAB’s decision about instituting review, the Court strikes the upcoming *Markman* hearing (and the related technology tutorial) and the expert witness disclosure deadline. *See RealD Spark LLC v. Microsoft Corp.*, No. 2:22-CV-00942-TL, 2023 WL 5836459, at \*1 (W.D. Wash. Aug. 25, 2023) (renoting *Markman* hearing “for a date following an expected decision from the PTAB on Defendant’s IPR petition.”). But the Court declines to stay the case so that the parties may focus on the other aspects of the Court’s order. *See infra* Section 3.3.

If the PTAB institutes review, then Microsoft may renew its motion to stay at that time. Because the Court adopts this approach rather than staying all proceedings, it need not analyze the other factors courts typically consider when deciding whether to stay litigation (i.e., the stage of the litigation and prejudice to the opposing party).

### **3.3 All five Rule 15 factors favor granting Microsoft leave to amend.**

#### **3.3.1 Microsoft has not operated in bad faith or with undue delay.**

In the context of a motion for leave to amend, courts first consider “bad faith”—whether the moving party “act[ed] with intent to deceive, harass, mislead, delay, or disrupt.” *Wizards of the Coast LLC v. Cryptozoic Ent. LLC*, 309 F.R.D. 645, 651 (W.D. Wash. 2015). “In evaluating undue delay, court[s] inquire into ‘whether the moving party knew or should have known the facts and theories raised by the amendment in the original pleading.’” *Alzheimer’s Inst. Of Am. V. Elan Corp. PLC*,

1 274 F.R.D. 272, 277 (N.D. Cal. 2011) (quoting *AmerisourceBergen Corp. v. Dialysist*  
2 *W., Inc.*, 465 F.3d 946, 953 (9th Cir.2006)).

3 There is no evidence in the record to suggest that Microsoft has acted with an  
4 impermissible motive, and Datanet does not raise a bad-faith argument. Instead,  
5 Datanet argues “Microsoft had all the law and all the facts it needed to raise this  
6 affirmative defense nearly one year ago, and to raise this issue as an invalidity  
7 contention” and “[a]llowing Microsoft to go back in time to get a do-over—nearly one  
8 year since its Answer and over five months since its contentions were due—would  
9 be prejudicial to Datanet.” Dkt. No. 62 at 7.

10 Datanet’s argument rests on its claim that *In re: Collect, LLC* does not  
11 represent an intervening change in law, as it, in Datanet’s words, merely  
12 “addressed whether Patent Term Adjustments would be treated differently and  
13 somehow be exempt from the general rule established in [*Gilead Scis., Inc. v. Natco*  
14 *Pharma Ltd.*, 753 F.3d 1208, 1216-17 (Fed. Cir. 2014)].” *Id.* at 8. According to  
15 Datanet, the Federal Circuit did not change the law but decided it would continue  
16 to apply *Gilead. Id.* Datanet also argues the language used by the Federal Circuit  
17 indicates it did not view its holding as a change in the law; rather, it stated, “[o]ur  
18 case law and the statutory language dictate an outcome where ODP analysis must  
19 be performed on patents that have received PTA based on the expiration date  
20 including PTA.” *Id.* (quoting *In re: Collect*, 81 F.4th at 1227-28).

21 Datanet’s arguments, however, are ultimately unconvincing. *Gilead* did not  
22 involve patents with PTA extensions. And on this inquiry, Datanet neglects perhaps  
23 the most important language from the *In re: Collect* opinion—“*For the first time,*



1 here, we address how another statutorily authorized extension, PTA, interacts with  
2 ODP.” 81 F.4th at 1227 (emphasis added). The Court gives great weight to the  
3 Federal Circuits own pronouncement about whether *In re: Collect* represents a  
4 change in the status quo. Based on this intervening change in the law—whether it  
5 is viewed as establishing a new rule or settling a previously murky question—the  
6 Court finds that Microsoft has not unduly delayed in seeking leave to amend to  
7 include an ODP defense.

8 **3.3.2 Datanet will not be unduly prejudiced by Microsoft’s**  
9 **amendments.**

10 Prejudice exists if the non-moving party will face undue difficulty in  
11 prosecuting a lawsuit because of a change in tactics or theories on the part of the  
12 other party. *Wizards of the Coast LLC*, 309 F.R.D. at 652. “As a corollary, delay  
13 alone is not sufficient to establish prejudice, nor is a need for additional discovery.”  
14 *Id.*

15 The parties contest who carries the burden of showing prejudice. Datanet  
16 argues it’s Microsoft’s burden to show it won’t cause Datanet undue prejudice. Dkt.  
17 Nos. 52 at 7-8; 62 at 6 (citing Local Patent Rule 124). Microsoft, citing Rule 15,  
18 argues the burden lies with the non-movant. Dkt. No. 64 at 8. Because the Court  
19 analyzes Microsoft’s motions under the Rule 15 standard, it finds Datanet must  
20 show prejudice.

21 Datanet argues it will face prejudice if Microsoft is allowed to inject a new  
22 invalidity theory on the eve of claim construction after the deadline for claim  
23 construction experts and discovery has closed. Dkt. Nos. 52 at 8; 62 at 6. Because

1 any alleged prejudice can be cured by amending the case schedule, and because  
2 delay standing alone cannot establish prejudice, the Court finds Datanet fails to  
3 establish that amendment would result in substantial prejudice.

4 **3.3.3 Microsoft's proposed amendment is neither futile nor**  
5 **precluded by prior amendments.**

6 Datanet has not argued Microsoft's proposed amendments to its invalidity  
7 contentions and affirmative defenses would be futile. Additionally, Microsoft has  
8 not previously amended its pleading. Accordingly, these factors favor amendment.

9 In summary, the Court finds all five Rule 15 factors favor amendment.  
10 Because leave to amend under Rule 15 constitutes good cause under Local Patent  
11 Rule 124, the Court grants Microsoft leave to amend its invalidity contentions.

12 **4. CONCLUSION**

13 Accordingly, the Court DENIES without prejudice Microsoft's motion to stay  
14 pending *inter partes* review. If the PTAB institutes *inter partes* review, Microsoft  
15 can move to stay at that time. The Court GRANTS Microsoft's motions for leave to  
16 amend its invalidity contentions and its affirmative defenses and counter claims.  
17 The Court ORDERS Microsoft to serve its invalidity contentions upon Datanet and  
18 file its amended answer within ten days of this order. *See* Dkt. No. 57-1 at 2-51. The  
19 Court also ORDERS the parties to file a joint status report within 15 days of this  
20 order proposing a new case schedule that will allow further expert witness  
21 disclosures, claim construction discovery, and claim construction briefing, as  
22 necessary. The case schedule must reset the technology tutorial and *Markman*  
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1 hearing for dates after the PTAB is likely to decide whether to institute *inter partes*  
2 review sometime in April 2024.

3  
4 Dated this 2nd day of February, 2024.

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Jamal N. Whitehead  
7 United States District Judge  
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